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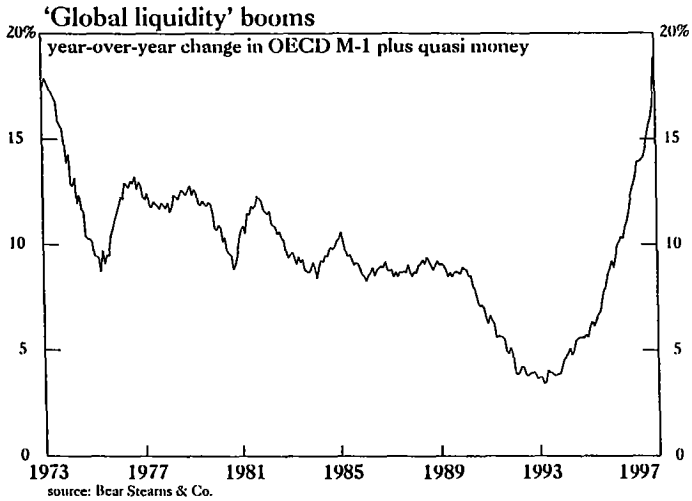
LETTER 1247 **Mar. 11, 1998**

MONEY: "Money moves the markets." Markets across the globe have been pushing up. And why not? The world is experiencing a virtual blizzard of paper. This chart courtesy of Jim Grant's *Interest Rate Observer* (via Bear Stearns) traces the explosion in M-1 plus other monetary aggregates on the part of 26 member nations of the OECD. The chart shows global money growing at the fastest rate in a quarter century. As predicted here earlier, we are now at the stage where governments are moving aggressively to fight unemployment, vicious price competition, over-production and commodity deflation -- with paper, lots and lots of paper.



THE MOVERS: Back in Letter 1211 (October 23, 1997) I made the statement that the S&P futures are now "running the market." In my opinion, this is even truer today. I explained why this is true in Letter 1211, but for the benefit of my many new subscribers I want to explain this extremely important "modern phenomenon" once again.

A S&P futures contract is worth 250 times the price of the actual S&P 500 Composite Index. (This contract was recently cut in half. When I wrote the article in '97 a S&P future was worth 500 times the value of the cash S&P.)

At today's value of around 1040 for the cash S&P, one S&P future is worth 1040 x 250 or $260,000 of assorted stocks. A professional trader pays around $15 for a round trip for an S&P future. Now include the bid-and-asked spread, and it's costing the pro $60 to $120 for a round trip on $260,000 worth of stock.

Now let's say you, as an individual, want to go into the market and buy and sell that same $260,000 worth of actual stock. And let's say that there's only an one-eighth bid-and-asked spread on both the buy and sell side. And let's say you're paying only a nickel a share when you buy and another nickel a share when you sell. That adds up to 35 cents a share for a round trip.

Now let's say the average price of a share of stock you're dealing with is 50. That means there are 5,200 shares in your $260,000 lot. At 35 cents each, the cost (in and out) for $260,000 shares of stock runs to $1,820. Compare $1,820 a round trip with what the professional trader pays for a round trip for the same amount of stock -- $60 to $120. The difference is HUGE -- and remember,

Feb. 27 DJIA 8545.72; PTI 5273; A-D Ratio +11.84
Mar. 9 DJIA 8569.39; PTI 5279; A-D Ratio +11.88
Dow Yield: 1.63%; Dow Price/Earnings: 22.1
Dow 144-day MA: 7920; Dow 34-day MA: 8291
Dow Times Book Value: 6.06; PTI 89-day MA: 5176
Percentage of Undervalued Blue-chips: 3%
Gold 34-day MA: 297

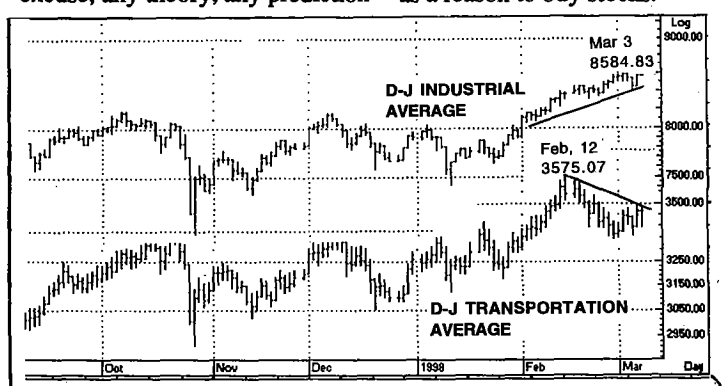
the pro S&P futures trader has the advantage of being able to move in and out of the market **almost instantly**.

And that's why professional traders who are bullish or bearish on the market buy or sell the S&P futures rather than buying an actual large assortment of stocks. And that's why the S&P futures now CONTROL the stock market.

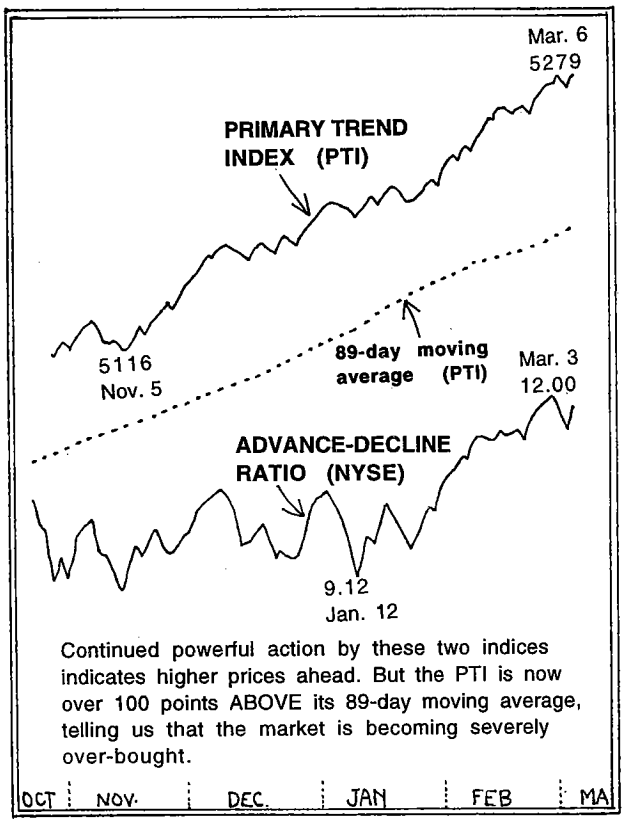
I grew up hearing the phrase, "You can't buy the market, you can only buy the stocks." Ah, but that's changed. Today the public has its own method of linking itself with the market. It's the index fund, a fund that tries to mimic the averages. However, trading index funds is not as speculative as trading the S&P futures; moreover, most index funds will not allow you to move in and out almost at will. Nevertheless, the public, piling into index funds, has also been a major force in moving this market higher. Remember, as the index funds advance, the management must buy either the futures or the underlying stocks. During the next bear market, of course, as the market unwinds, the index funds will be a major force on the downside.

And the latest -- we now have the Spyders (SPY), a security (on the AMEX) which is equal to one-tenth the price of the S&P 500 -- technically they are called Standard & Poor's depository receipts. Furthermore, this year we have the Diamonds (DIA) traded on the AMEX, which are proxies for the D-J Industrial Average (technically a Diamond is a Diamonds Trust series 1 Index). Each Diamond is worth 1% of the Dow. Both of these are legitimate ways of keeping up with the stock market without the burden of loading up with an assortment of stocks (and, of course, from a commission standpoint it's a lot cheaper to buy a Spyder than it is to buy one share each of 500 different stocks).

PRICE ACTION: What's happening? Well, for one thing, we've been witnessing an insatiable appetite for stocks. Remember the old adage that runs, "News goes with the trend." Well, the trend has been bullish and in 1998 investors have been taking any news, any excuse, any theory, any prediction -- as a reason to buy stocks.



Transports, which hit their high a month ago, have not yet confirmed the series of new highs in the Industrials -- so this is worth watching. However, the PTI and the A-D ratio (see page 2 chart) are still in bullish up-trends.



Continued powerful action by these two indices indicates higher prices ahead. But the PTI is now over 100 points ABOVE its 89-day moving average, telling us that the market is becoming severely over-bought.

You may not like it, you may think it's crazy, you may be tempted to argue with it -- but in this business you absolutely MUST deal with **reality,** and the reality is clear enough. In each issue of Dow Theory Letters I illustrate the current reality by placing a bull's or a bear's head in the "Investment Position" box. I also show reality in each Letter via my Primary Trend Index on the page 2 chart.

I've said this before, but I'll repeat it: big bull markets like this one don't die on bad news, they don't die on warnings from the Fed chairman, they don't die on the advent of wars or political fiascoes. They die only one way -- **in exhaustion.**

It seems that this bull market is not yet exhausted. How will we know when the bull market is exhausted? The most obvious signs will be **(1)** when the Dow and the Transportation Average start diverging, and I mean **persistently diverging.** In other words, one Average will continue to rise while the other either refuses to confirm or actually starts down. Such action usually ends with a flagrant non-confirmation.

Another easy way of knowing when the bull market is exhausted is when **(2)** my Primary Trend Index (PTI) lapses into a downtrend, breaks below its 89-day moving average -- and then continues down.

A third method of detecting exhaustion is when **(3)** the market "churns" or makes no progress on very heavy volume. That kind of action usually implies that stocks are moving from strong hands to weak hands, but it usually takes many weeks of churning before the market starts down in earnest.

So far, none of the above is happening (well, maybe a little divergence in the Averages, with Transports not confirming the recent series of Dow highs). But c'mon, me worry? Well, I do occasionally fret. I fret mainly because this market is doing things that no bull market has ever done before. This bull market is extraordinarily extended, it's uncorrected, it's selling at 25 times record earnings and it's providing the lowest average dividend yields in history. Yet **trend** and **direction** conquer all, and the trend and direction, at least up to a week ago, has been up.

Risk: With the stock market having risen above all prior historical valuations, it is **not positioned (and I've said this before) for negative surprises.** We can see this in the way stocks get slammed on the issuance of any negative news. The latest victim is Intel, which announced on March 5 (after the close) that incoming orders were weakening. The stock dropped over 10% in the aftermarket and opened at 75 down 27% from the 95.5 high struck as recently as February 24.

The drop in demand from this semi-conductor leader has the whole industry worrying. The big question, of course, is whether Intel's slowdown presages a slowdown in the entire US economy. With the S&P selling at 25 times record earnings, by far its highest valuation in history, a slowdown in the economy would put the stock market to the test.

Stocks and Bonds: Probably the most accepted and widely followed thesis of this bull market is that "stocks have been trading off bonds." Or, to put it more precisely, **stock earnings are capitalized as a ratio of interest rates.**

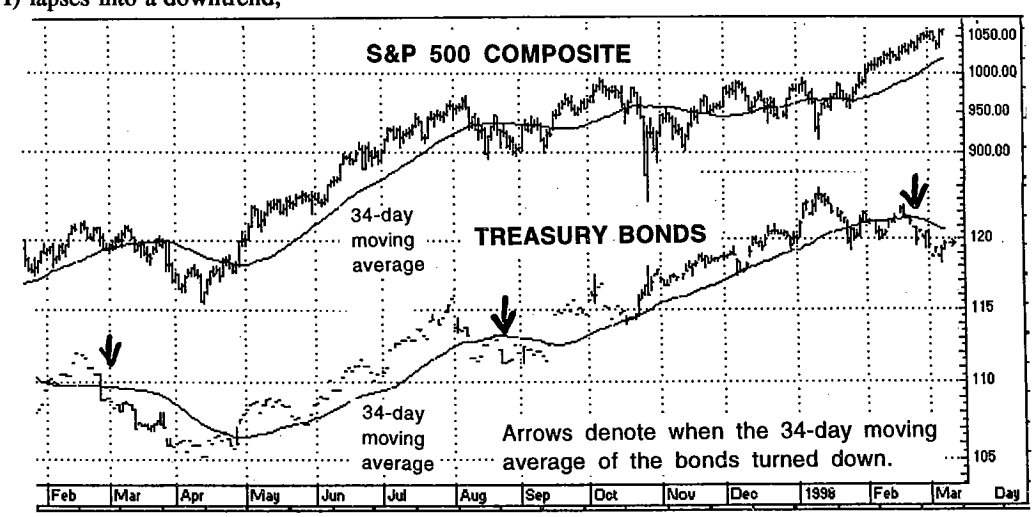
I've run off a chart of the S&P and the June Treasury bond futures (bottom of page 2), and it's instructive to follow the relationship of the two. The chart goes back to February of last year.

On examining the chart one phenomenon is immediately apparent. **Any time the bonds are weak enough to turn their 34-day MA down, it impacts on the S&P,** either stalling the S&P or sending it into decline. The arrows on the chart denote the times when the moving average of the bonds began to turn down.

February 23 marked the beginning of the most recent downturn in the moving average of the Treasury bonds. The S&P first resisted, recording an all-time high on March 3, but on March 4 the S&P finally turned down, which is where we are as this Letter is written (see Late Notes for more).

Conclusion: The bonds are now well below their 34-day MA. It looks to me as though it will be a while before the bonds can muster the power to move up above their moving average again. So the question now is -- how long will bond weakness last and when will bonds trace out a definitive bullish trend again?

What's With the Bonds?: There are a number of opposing forces here. On the bull side for bonds are the following: **(1)** Federal deficits are being reduced. This means that the government may soon be in the position of issuing **fewer bonds.** **(2)** The



deflationary trend of commodity prices. **(3)** Bond yields are very attractive relative to stock yields. **(4)** The dollar remains strong, and T-bonds are denominated in dollars.

On the bearish side are the following: **(1)** The **Fed has boomed the money supply** as a defense against the deflationary effects of the Asian collapse. But now the perception of an Asian meltdown is fading. In the meantime, the surging US money supply has fed both the stock market and the economy. If Asia lifts out of its morass, inflation could quickly heat up in the US. And, of course, that's the bond market's single greatest fear. **(2)** Business continues strong, real estate prices are rising, unemployment continues low, and wages are starting to head up.

THE BIG PICTURE: In my considered opinion, the most important question for the markets and the economy today is this -- is inflation or deflation the wave of the future? And it's really amazing -- the **division of opinion** among the smartest and most informed analysts in the nation. Let me give you a few quotes.

This from Adrian Van Eck, who writes the highly-regarded *Money-Forecast Letter* [(800)219-1333]. Adrian writes of the billions of dollars that he foresees overseas Chinese (who are discouraged with the Asian situation) bringing to the US. "Frankly, we think their money will arrive just in time. A faster, hotter boom will be needed to pay for all the programs Clinton and the Democrats have begun to push for this year's election, as they try to make voters forget any other topic but the economy. 1998 shapes up as the year of surprises in America. One of the biggest surprises will be the emergence of the strongest inflation seen here since the early 1980s."

Here's Dr. Edward Yardeni, Chief Economist for Deutsche Morgan Grenfell -- he's an analyst read by everyone on Wall Street: "From Golden Era to Jurassic Park. The GDP price deflator was up only 1.8% last year, the lowest inflation in over 30 years. The consumption deflator was up only 1.7% in '97, the lowest since March '65. I believe that inflation is dead. Not forever, but for at least the next five years. It could be back from the dead sometime between 2005 and 2010. But before then, a couple of years of deflation are increasingly likely."

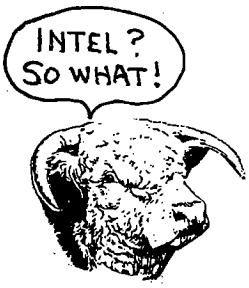
Next, Bill Gary, a top commodity expert [he writes the well-known *Price Perceptions* -- (800)231- 0477]: "In the space of just a few months, the *economic miracle* in Asia became an *economic nightmare* . . . and the change has left commodity markets in a quandary . . . The Asian crisis has generally been ignored by the world's equity markets. However, it is just becoming apparent in livestock and grain markets . . . **World farmers expanded production for a market that no longer exists.** Now the function of the marketplace is to curb production and bring it into line with prospects for declining, rather than expanding world demand."

Fed Chairman Greenspan and Treasury Secretary Rubin have their hands full. They know that there is a giant tug of war going on between collapsing commodity prices (deflationary) and the surging M-3 money supply that has grown at the rate of over 9% the last six months (inflationary). It's a **balancing act**, but both Greenspan and Rubin know that the US is the **only huge buyers' market left** (now that Asia is in recession) for Chinese, Japanese and "Tiger" exports. If the US lapses into recession, if the US economy merely slows down, there's nobody to sell to -- and the world's economy will head into the cellar. Thus the US must be kept healthy, the US must be kept prosperous, the US must be kept in a "buying mode."

As I see it, Greenspan would like the US economy to slow down -- no recession, just a mild slowdown (remember, the stock market is now 50% higher than when Greenspan warned about "irrational exuberance" 15 months ago). But Greenspan is afraid to take a chance on a slowdown because of the dangerous Asian situation. So Greenspan is letting the money supply roar, he's not raising interest rates, and I don't think he'll do anything to slow the economy down (except jawbone) UNLESS signs of inflation appear in the economy (and the only inflationary signs at present are limited to higher-priced real estate and luxury goods).

And what are the ultimate experts, the markets, saying about inflation? The commodity indices are down. Oil is down. Gold is down. Bonds are moving sideways. The verdict of the market, at least so far, is that a lot of areas are deflating. That lets Greenspan off the hook. He can wait, he can study his statistics, and he can keep his fingers crossed.

INVESTMENT POSITION: I've mentioned the Spyders and the Diamonds in this and previous Letters. Question: Why are these two any better than say buying or selling futures on the S&P? Answer: Spyders or Diamonds represent a **perpetual** call on the market. Buy them and you're on the bull side. Sell them short and you're on the bear side. Futures have the disadvantage of having an expiration date.



Why are the Spyders or Diamonds not more widely used? My opinion -- the public either doesn't really understand them, or the public doesn't feel "comfortable" with them. When you buy GE or Exxon you know what you're buying. When you buy a Spyder you're buying something nebulous, it's not an industry or a service. Nevertheless, both Spyders and Diamonds have their uses; they're valuable and I like them. I consider them excellent longs in a bull market and excellent shorts in a bear market.

As mentioned earlier, the ratio of bond yields to stock yields is now 4-to-1 in favor of bonds. This is a dangerous ratio, last seen in 1987 just before the crash. Be careful.

The most favorable position now is probably in T-bills. **T-bills protect you** against a decline in stocks or bonds, in fact, against everything except inflation or a collapsing dollar (actually, a collapse in the dollar would hurt US business exports but would not necessarily hurt the American consumer).

Low Dividend Yields: I've discussed the whole concept of low dividend yields many times. But now, with the dividend yield on the S&P 500 at a record low 1.52%, it's worth discussing again. The current dividend **payout** is now only 35%, but even if the payout was increased to 50%, the dividend yield would still be at a record low.

Today, little attention is being paid to the current minuscule dividend yield. The reason for this is that we've been in an extended bull market and rising stock prices, at least in investors' minds, have removed the need for "dividend protection on the downside."

However, once the market starts down the idea of safe, well-protected dividends becomes extremely important. I'd venture to say that the great majority of today's investors don't realize the psychological advantage of a fat, well-covered dividend.

For example, back in 1974, near the bottom of the great bear market, I bought both Texaco and Exxon. They were both yielding around 10%. I figured that even if the bear market continued, if I was collecting dividends of 10%, that amounted to 30% in three years and that 30% makes up for a lot of potential loss (assuming the bear market was to continue).

Compare that thinking with the thinking of today. If the market were to head down today, investors would be holding a selection of stocks yielding 1.5%, meaning that they'd have no downside protection. There's no way that accumulating dividends of 1.5% is going to make up for bear market losses. This is what most of

today's investors fail to realize. The record low dividends of today represent a great potential danger, a danger that will not be perceived until the stock market starts going down persistently and in earnest.

NOTES & QUOTES: The "Teflon Pair," the stock market and Bill Clinton. To me it's really remarkable -- despite every type and variety of scandal and mess, Clinton continues to survive. As for the bull market, despite overvaluation, over-extension, rising interest rates, deflating commodities, it continues to survive. I shake my head, it's almost as if the two were in some eerie way connected.

Some people are wondering whether Bill Clinton has learned from Saddam Hussein or the other way around. The technique by both is clear -- delay, deny, stonewall and then give in only when you have no other choice.

* *

Marc Faber writing out of Hong Kong in his *The Gloom, Boom and Doom Report* (85-22-526-0206) states, "I have experienced first hand the 1973/74 global bear market and recession, the depressions which followed the oil boom in the oil-producing regions, the Japanese contraction and more recently in 1993/94 the slump in Russia. But I have never read of, or seen, such a total economic breakdown and massive destruction of wealth as has occurred, against all expectations, in Asia in the last six months." Marc adds that he also has never received so many requests for investment opportunities in the ravaged Asian markets. He continues, "I have even started to look again at buying some Asian stocks myself, something I haven't done since 1993. But what does disturb me is that so many people are keen to invest in Asia. My concern arises from the likelihood that at the final stock market lows the appetite for portfolio investment in Asia will have dried up entirely (as may be the case for gold, which has been in an 18-year bear market)."

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Is there just too much money sloshing around the US? Last week a gold medal that the Duke of Windsor owned (he received it to mark the maiden voyage of the Queen Mary in 1936) sold for $52,250. Last week the pistol that killed gangster John Dillinger sold for $27,875. How about this -- Dana Stubblefield, the 49ers' free agent linebacker, signed on with the Washington Redskins for six years for $36 million including an $8 million signing bonus. But here's the ultimate winner -- a piece of the Windsors' wedding cake sealed in plastic sold at auction for $25,000. Insanity reigns.

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Speaking of money sloshing around, despite the "reinventing of government" by Clinton/Gore, the overall cost of salaries and benefits paid to federal workers has surged from $93.7 billion in '92 to $101.4 billion in '96. There are now 554 members of Washington's $100,000 club, up 41% in 1995. Incredible fact -- for the first time in history more behind-the-scenes staffers are pulling down six figure salaries than Senators or Congressmen.

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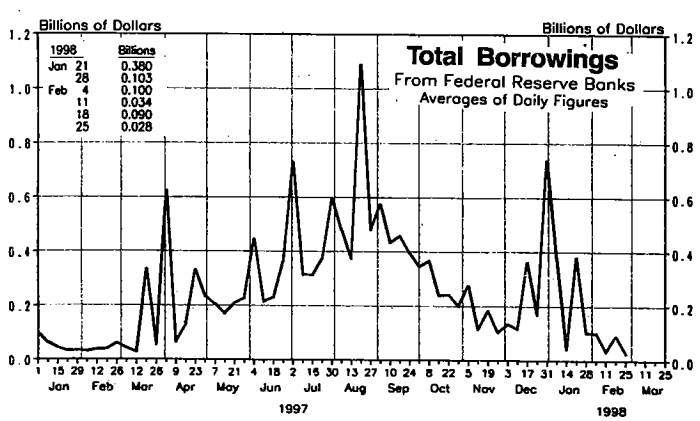
This chart is from the St. Louis Fed. It shows that bank borrowing from the Fed has declined to almost zero. Why? Because the banks are so loaded with cash that they don't have to borrow. And that's the way the way the Fed wants it. It's one of the main forces that is pushing stocks higher.



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The February 23 issues of *Barron's* has a large picture of Goldman's Abbey Cohen on its cover. Ms. Cohen is very modest and she has been very right on this market, but beware Ms. Abbey, I know you're modest, but the media is making you a guru. I'll remind you of my old adage, "There are no geniuses on Wall Street, only geniuses for a while." Advice from an old-timer to Ms. Cohen: next time they want to put you on a magazine cover, tell 'em, "No thanks." You're doing fine without the illustrations. Besides, it's very bad luck.

* *

Why is Monica's lawyer insistent on her receiving full immunity? If she had told the truth in the first place, she wouldn't need immunity. Her lawyer, Bill Ginsburg, is destroying her. Monica lied when she stated under oath that she never had sex with Bill Clinton. Why did she later deny what she said on her tapes? She did it to "save" Bill Clinton, who she is still obsessed with (this is the same Clinton who would throw her to the dogs in a heart beat). As a result of her lawyer's stupid advice, Monica is now a distrusted witness and most likely a subject for indictment. Her best chance, dump her inept, show-boat lawyer Ginsburg -- and try like hell to convince independent counsel Starr that she will tell the absolute, WHOLE truth -- this in turn for immunity.

Judith Exner was a Kennedy mistress during the '60s. She ended up being trailed for years by the FBI, her phone was tapped, even her shopping was logged. In an article in the March 1 *Parade*, Exner gives this advice to Monica, "Don't lie for him; your life will be destroyed." Whatever is said about *him* hereafter, *she* will always be "that little liar, that little bimbo . . . and if she thinks she is being loyal, look what happened to me."

It seems that everybody connected with the Clintons ends up either being indicted or in jail. This is generating huge legal bills for those connected with Clinton. The word is that Clinton himself now owes over $3 million in legal bills. And now Monica's lawyer says that both he and Monica need their own legal defense fund.

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What's the real story on Social Security? On the present system, most of your and my SS taxes go to pay current retirees (or those over 70 who have chosen not to retire). Whatever is left over is lent to the Treasury. Ultimately, the government will be forced to **(1)** increase the already very high payroll tax or **(2)** raise the age at which you receive SS or **(3)** reduce what you will receive under SS or **(4)** privatize some part of SS or some combination of the above. In his State of the Union speech Clinton told the nation that whatever surplus we have in the budget, that surplus should be used to "fix" Social Security. Who is he kidding? What this means is that the very funds that are set aside to "save" Social Security come out of SS to begin with. Thus, the government is counting the same dollars twice. So budget surplus -- baloney. Fixing SS -- more baloney. The fact is that SS, as it is set up, is a scheme that can't work. My suggestion: pay off the people who are now in the grip of SS and let all future potential SS "victims" set up their own retirement plans, free of this financial dead weight.

* *

Near the top of the financial best seller list is the book, "Die Broke," by Pollan and Levine. What they advocate makes a lot of sense (at least to me, it does). Excerpts: "Inheritance is a terribly inefficient way to pass wealth to others. Estate taxes are among the highest the IRS levies, ranging up to 55%, depending on the size. Then there's state tax. And if the estate is primarily in a qualified retirement plan, the bite can even soar as high as 70 to 85% . . . Inheritance is also soul-killing. Think of the effect on your child's psyche of having to rely on inheritance for his financial future or having to wait for a loved one to die so he can finally come into his own . . . Free from the burden of having to preserve an estate, you can use your accumulated wealth to help your family and improve your own life. You'll be able to give money to your children while it can still do the most good." **Russell Comment:** I generally agree, particularly in giving your family money now when it will do them some good. To me, money implies freedom to do what you want. I advocate giving kids enough so that they won't ever

starve, but not so much that they don't have to work for a living. To me, the best thing the government allows us is the $10,000 gift, meaning that each year you can give a $10,000 gift to as many people as you want and these gifts are not taxable. A couple can give $20,000 a year as gifts. Theoretically, you could give most of your estate away in the form of these gifts and thus avoid the great bulk of estate taxes. Die broke -- why not? When you're up there in heaven, there's little chance that you'll need any of your hard-earned money.

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The telephone business in the US is dominated by AT&T, MCI, Sprint, GTE and the regional Bell phone companies. But big changes are coming. A few weeks ago AT&T made a shocking announcement -- AT&T would be the first major long-distance carrier to move into Internet Protocol (IP) telephony. This is a cheaper technology which would allow calls over the Internet instead of the regular phone network. Says Mark Winther of International Data Corp., "Internet telephony is a reality and telephone companies have awakened to that fact rather early." Says David Goodtree of Forrester Research, "It will be the catalyst that forces the total restructuring . . . of the profits of telephone companies worldwide." Says *USA Today*, "Cable TV companies and Internet service providers entering the $80 billion long-distance business are sure to benefit. By 2002 the Internet will drain $3 billion in annual revenue from US long-distance carriers, Forrester Research estimates."

* *

"I do, I will." My wife, Faye, showed me an article which she picked up off the Reuters wire. It started, "Men who want their marriages to succeed should just do what their wives suggest, a group of psychologists has reported." In a Washington University study of 130 newlyweds, it was found that the "marriages that seemed to work had one thing in common; the husband was willing to be influenced by his wife. 'We found that only those newly wed men who are accepting of influence from their wives are winding up in happy, stable marriages. The best indicators of divorce were: criticism, defensiveness, contempt and stonewalling.'" **Russell Comment**: "Yes, dear."

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America has produced two art forms -- jazz and the comics. I grew up with both. I spent my high school days listening to the latest jazz (often in Harlem) and pouring through the "funnies" out of the *Daily News* or the *Daily Mirror*. A veritable flood of old and new jazz recordings are now for sale (many previously unavailable recordings have been reissued). On the satellite, jazz from two jazz stations is now piped in 24-hours a day. Each new selection is named and each is available through (888)MC-STORE.

* *

Rolls Royce has put itself up for sale, but that hasn't stopped them from making great cars. The first really new model in 18 years, the Silver Seraph, is about to be unveiled. It will sell for a mere $260,000. It will be a 12-cylinder beauty, with a motor by BMW. The car will be 17.5 feet long, weigh over 6,000 pounds, go 0-to-60 in a snappy 6.9 seconds. And it will boast the usual gorgeous wood work, fluffy carpets, chrome trimmings, etc.

* *

Wall Street: Two weeks ago a seat on the NYSE sold for a record $1.8 million, $50 thousand above the last sale. It's all part of the stock market and luxury boom. Example: a case of Chateau Lafite-Rothschild vintage 1982 sold for $3,180 in '96, $6,000 last year and the price today is $9,600. All luxury items in Manhattan from designer ties to "taster-dinners" at top restaurants to condos are going up in price. The talk now is of the first $2 million seat on the NYSE.

New York's tough Mayor Giuliani, having cleaned up the City and run the crooks and pornographers off the streets (the prostitutes have to work out of their apartments), now wants the City to be quieter and more polite -- or else. Gosh, he even wants to end New York's favorite sport -- jay walking. The latest -- his Honor is threatening to institute politeness instructions in the public schools. New Yorkers are skeptical but fascinated. But what's this? Michael Bloomberg, he of the Bloomberg boxes, the Bloomberg TV channel and the Bloomberg Magazine, is thinking about running for mayor of NYC in 2001. Says Michael, "I have worked in my company for 16 years now. But I am 55 years old, and down the road, if I had another challenge, and if it was politics, I think it would be fine." **Russell Comment:** I have no doubt that Bloomberg would make a terrific mayor. Gad, is this the same New York I left in '61?

* *

I've said this before, and I'll say it again -- we'll all be stuck with the current idiotic tax code until we get a Republican President and Congress. Last week Clinton attacked any overhaul of the tax code, thus branding himself again as the ultimate "status quo president."

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Clinton Rips 'Reckless' Overhaul of Tax Code

■ **Politics:** Bills gaining support in House, Senate would allow 'fairer, simpler' alternative, lawmaker says, but White House warns of economic havoc. Official predicts spring vote.

By JONATHAN PETERSON
TIMES STAFF WRITER

WASHINGTON—Facing an unexpected stampede in Congress to wipe out the U.S. tax code and replace it with a radical new system, President Clinton

Boomers: In a study of baby boomers, psychologist Dr. Christopher Hayes characterized baby boomers as follows: "They want to plan for tomorrow but are unwilling to sacrifice today. They are self-absorbed and confident they can manage their own money. And they are novices and investors with unrealistic expectations with little idea of how much money they need for retirement." There are 77 million baby boomers in the US and the study below is worth studying.

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I keep getting inquiries from subscribers about our San Diego weather. It's still the best in the wide world, even with this year's dreaded El Nino. Last month in February, for instance, LA got a record 13.68 inches of rain for the month. But San Diego got a total of 7.65 inches in February, and that was our second wettest February on record. San Diego, unlike most of the rest of California and the world, has NEVER suffered a natural disaster. San Diego has no tornadoes, no major earthquakes, no floods, no hurricanes, no mosquitoes. It's one of the reasons I moved here.

Baby Boomer Facts

Excerpts from the Scudder Kemper Baby Boom Generation poll, conducted by surveying more than 1,000 baby boomers with annual incomes of at least $30,000.

- **Median age is 44, but most say they feel 10 or more years younger than their true age.**
- **63 percent are female.**
- **22 percent are single, never married.**
- **29 percent are divorced/separated.**
- **47 are married.**
- **54 percent have a college degree or more.**
- **Median annual household income: $52,000.**
- **Median financial assets: $45,000.**
- **Median amount in 401(k)/403(b) plans: $65,000.**
- **Median amount set aside for retirement excluding 401(k)/403(b): $25,000**
- **Perceived amount of money need upon retirement: $365,000.**
- **68 percent plan on some type of paid employment after retirement.**
- **20 percent have no intentions of ever retiring.**
- **60 percent think Social Security should be privatized.**

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Where does Saddam Hussein get the know-how to make his infamous "weapons of mass destruction"? Probably from the US. In the seven years since the end of the Gulf War in '91 nearly 11,000 visas has been issued to **students** from nations that sponsor terrorism, including 503 Iraquis, 5,154 Iranians, 113 Libyans, 3,227 Syrians, 1,604 Sudanese, 103 Cubans, and 129 North Koreans. All students have to do is declare an intended major, but none is specifically barred from pursuing nuclear, chemical or biological studies.

* *

Speaking of foreign problems, what's the biggest fear confronting tourists or businessmen -- is it aircraft crashes, delayed flights, lost luggage, disease? According to Lloyd's syndicate, it's now kidnapping. In the last five years kidnappings have doubled. Last year there were 881 kidnappings in Columbia, 197 in Mexico and 60 in Brazil. In some countries you merely have to appear wealthy to be a potential victim. Says Lloyd's specialist Rob Davies, "If you walk through some parts of Latin America in a business suit you stand out a mile. You may not be very rich, but to the locals you are fabulously wealthy and therefore a target." Davis says the problem is not unique to S. America. Kidnapping has become a global problem, spreading to many parts of Asia and Europe. What to do? Keep a low profile, surround yourself with protection, maintain lines of communication, do not follow a routine. If you travel to high risk locations, be prepared.

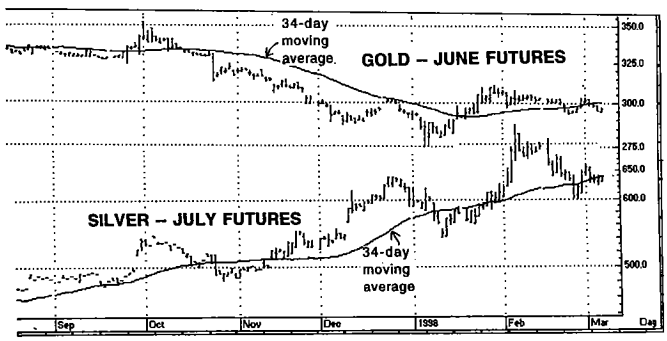
PRECIOUS METALS: I've always maintained that the price of gold is not a function of how much or how little gold is being produced by the mines. No, the gold price is ruled by perceptions of inflation/deflation.

You don't believe it? Then consider this -- last year, demand for gold rose 9% globally, to a record level of 2,935 metric tons. Even in the US demand jumped 9% to 376 metric tons. Did all that buying do anything for the price of gold? Hardly. Gold started 1997 at a price of 373 and ended the year at a price of 289 -- this in the face of record gold sales.

That was then, and this is now. So what is gold doing now? Referring to the June futures contract, from a low of 275 recorded on January 7, gold rallied to a closing high of 309.8 on January 28. Next came a long sideways movement, a movement that's in progress as this is written. Note how gold is tending to hold, to "ride along" its 34-day moving average.

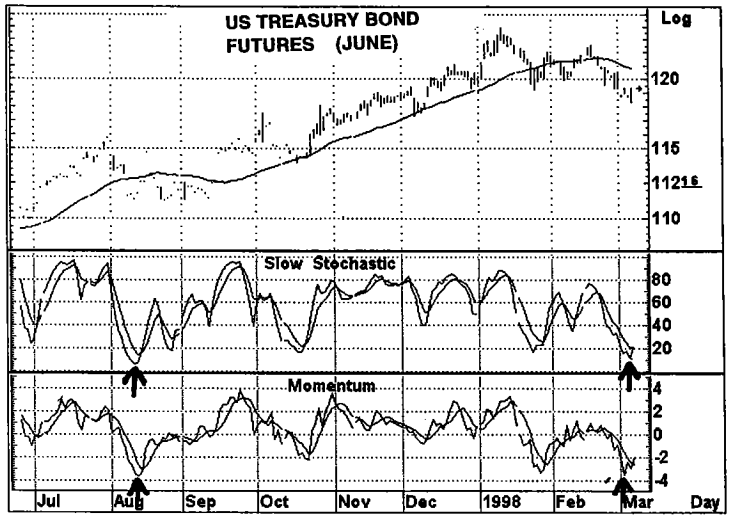
If I had to guess, I'd guess the bottom for gold was seen at the January 6 low. And I'd guess that nothing much is going to happen until June gold betters its January closing price of 309.8.

Silver is a better story, although silver's still not a ball of fire. Silver, like gold, is hugging its 34-day moving average. The chart shows July silver futures holding above its February 25 low of 6.04. The high close for July silver was hit on February 5 at 7.08. That's the upside target, and we can be sure that Warren Buffett is watching.



MORE ON BONDS: Since bond action is so important, I want to enlarge my discussion on bonds. The accompanying chart shows the June bond contract along with the slow stochastics and the 10-day rate of change or momentum. Both of these indicators suggest that bonds on March 5 moved into their most oversold condition since last August, seven months ago. So my guess is that bonds on March 5 discounted the worst of the current inflation fears and that they have recorded a bottom.

For bond bulls, note that there are two major oversold areas for bonds pictured on this chart. The first occurred last August with the bonds in the 110 area. The second occurred on March 5, but this time the bonds were in the 118 area. The fact that each sold-out area finds bonds at a higher level is a bullish factor.



LATE NOTES: Clinton: According to the latest Clinton double-speak, it was not Clinton, but his long-time secretary, little Ms. Currie, who took such an inordinate interest in helping Monica. Who is he kidding? Would Clinton allow Ms. Currie to perjure herself before the grand jury? You bet he would. Meanwhile, lawyer Ginsburg is still trying to get immunity for Monica. If he gets it and Monica tells all -- watch out, all hell could break loose.

Market Musings: The dollar has turned very strong, moving out well ahead of the two other major currencies, the yen and the mark. A strong dollar should be good for US bonds, so why the sell-off in bonds? A bond market that had rallied too far, plus a fear of rising inflation in the US. Against the inflation odds are lower earnings just announced by bellwether Intel and Motorola, spurring fears of a slowdown in the whole technology field. But wait, despite INTC and MOT -- the US is fast becoming a service economy, and wages are beginning to move up and unemployment is moving down, both inflationary. So what's the answer? Sadly, I must announce that the verdict regarding inflation just isn't in yet.

Most impressive from the stock market's standpoint is the fact that the market hardly sold-off in the face of a six-point decline in the bonds. A basically weak market would have fallen-apart when the long bond pushed above the 6% yield level again (which it did last week). As stated above, the bonds are now heavily oversold and appear to want to advance.

Another big question, of course, is the messy **Asian** situation. China continues to declare that it will not devalue. China also announces a trillion dollar works program calculated to aid their dire unemployment situation. Japan continues to wallow in semi-recession, but the Nikkei has rallied above 17,000 again, a constructive sign. Meanwhile, Indonesia (with its crashing currency) continues to frustrate the IMF via its control-mad leader, the aging Mr. Suharto. Writes *13D Research, Inc.* "Even the bears have underestimated the severity of the economic decline in Asia. Imports have collapsed, in some cases by 30% to 50%; industrial production in Thailand and Korea has collapsed at 30% month-to-month rates over the past three months; Malaysia and Thai auto sales fell 50% and 75%, respectively, over the past year."

One of the phenomenons of this bull market is the massive upside momentum and persistence of the advance. All problems and questions are thrust aside by the torrential and insistent buying. This extraordinary upward pressure is seen, perhaps, most visibly in the action of my Primary Trend Index. Declines in the PTI are minor and short-lived, while advances are powerful and insistent. Since the great bull market began in late-1974, my PTI has added over 5,000 points. Frankly, back in 1974 when I called for a bull market, in my wildest dreams, I never foresaw a rise of this dimension. There is only one saying that will apply correctly to the stock market on any given day; it's that **"THE MARKET CAN DO ANYTHING."** Better believe it.

NEXT MAILING: March 25, 1998